



December 2, 2004

TO: Coastal Conservancy

FROM: Sam Schuchat Steve Horn
Executive Officer Deputy Executive Officer

SUBJECT: Update on the Long-Term Financial Strategy

The Conservancy has a Support (personnel, operations and administration) budget of approximately \$6.8 million for the current fiscal year (FY04/05). None of this is provided from the State General Fund.

Since the inception of the agency, it has been both the practice and the necessity of the Conservancy to try to pay its Support expenses from sources other than the State General Fund. The principal sources of those Support funds have been: (1) the State Coastal Conservancy (SCC) Fund; and (2) the several park bond acts approved by California voters. The SCC Fund is a “non-governmental cost fund” that consists of the proceeds of grant repayments, land sales and any other unrestricted revenues received by the Conservancy.

With the decline in overall agency funding during the 1990s (because no park bond was passed during that period) the Conservancy was faced with a corresponding decline in funds available to pay Support costs. By 1995, the foreseeable expenditure of all SCC Fund balances presented the threat of a sharp reduction in agency staffing unless some alternatives could be developed. The Conservancy then created the Long-Term Financial Strategy in order to deal with this problem: how to keep the agency operating through a period of reduced revenues.

Today, although the Conservancy has received very substantial capital outlay funding from the 2000 park bond and 2002 park and water bonds, the ability of the

Conservancy to pay its Support expenses continues to be a key strategic planning issue for the agency. The attached chart (Exhibit 1) describes planned Support budgets and indicates that the Conservancy has sufficient funds to pay for its current staff and other administrative costs for at least four years beyond the current fiscal year (i.e., fiscal years 2005/06, 2006/07, 2007/08 and 2008/09). After that time, however, the Conservancy Support budget would have to be substantially reduced unless major new funding sources had been developed. Thus the issues raised in the 1995 Long-Term Financial Strategy continue to be very relevant for the Conservancy.

Conclusions

The Conservancy is on track with its Long-Term Financial Strategy and as a result the agency is able to plan for its operational needs without recourse to the General Fund. However, the fundamental financial difficulty remains: funds currently available for Support appropriations are limited, so substantial new sources of Support funding must be developed. With current fund balances and foreseeable future revenues, FY08/09 is the final year in which funding is available for a Support budget at the planned levels, and this analysis does not account for any increase in Support costs (e.g. salaries and benefits) that would make the problem deeper.

Given the very large capital outlay appropriations to the Conservancy as a consequence of the 2000 and 2002 bond acts, and the expectation of further workload increases as capital spending from these sources continues, high-priority workload will continue unabated for the foreseeable future. Unless the Conservancy can stay ahead of the Support budget problem, however, at a future date the agency may be required to begin a process of staff reduction that would make it unable to carry out the programs funded through these bond acts.

Given the support of the Administration, Legislature and California voters for environmental conservation and restoration programs, the most likely solutions to this problem may be a future park bond act that provides substantial new Support funds and the receipt of additional revenues into the SCC Fund as a result of the Conservancy's use of bond act proceeds. That will require a continued attention to the policies of the 1995 Long-Term Financial Strategy.

The following pages describe the policies of the 1995 Long-Term Financial Strategy and how those have been implemented to date.

BACKGROUND

Contents of the 1995 Long-Term Financial Strategy

The Long-Term Financial Strategy approved by the Conservancy in 1995 considered the agency's fund balances, current and projected workload, and programmatic needs, and produced a set of **operating principals** that would enable the agency to: (1) best meet the needs of the public within the limits of foreseeable funding; and (2) provide for an on-going Conservancy operation that would continue to make a significant contribution to the State's Coastal Management Program, notwithstanding substantially reduced funding.

Implementing the Long-Term Financial Strategy is dependent upon the achievement of a set of **financial goals**, including: (1) control of annual operating expenses; (2) timely disposition of existing assets; and (3) creation of additional sources of revenue. Such additional revenues are sought through reimbursable grants issued by the Conservancy as well as grants to the Conservancy from other State agencies and Federal entities.

The financial circumstance that caused the Conservancy to develop the Long-Term Financial Strategy - - lack of an adequate source for Support funding - - remains a major obstacle to the Conservancy's program. While substantial additional funding has been provided to the Conservancy through the State Budget for capital outlay and local assistance projects, the majority of the agency's Support costs continue to be provided from funds generated by the Conservancy itself. Within a few years, this will not be sustainable unless supplemented by additional new "outside" funds.

Success in Implementing the Long-Term Financial Strategy: General Fund Appropriations Provided for Support Costs

Until FY99/00, the costs of the Conservancy's administrative support had never been provided from the State General Fund. However, facing the prospect of a sharp decrease in Conservancy personnel, obtaining approval of a substantial General Fund contribution to the Conservancy Support budget was a principal goal of the 1995 Long-Term Financial Strategy. This was accomplished, and the FY99/00 budget included a significant amount - - approximately one-third - - of the Conservancy Support costs paid from the State General Fund. This

continued in subsequent years, as the FY00/01 and FY01/02 budgets each paid for approximately 40% of Conservancy Support costs from the General Fund. In the event of a future shortfall in other revenues available for Conservancy Support costs, the agency may again request that a portion of its Support be provided from the General Fund, but there is no certainty that such funding would be provided.

Success in Implementing the Long-Term Financial Strategy: Raising Additional Revenues

The Conservancy has succeeded in meeting many of its financial goals in the years since it adopted the Long-Term Financial Strategy. Our staff members have been particularly successful in developing program and project funding from partner agencies. Conservancy staff will continue to work to develop **outside funding for our priority projects**, especially focusing on grants that can offset our direct staff costs.

Revenue generation through **expedited asset disposition** is a key element of the Long-Term Financial Strategy. Disposition efforts have been completed on most property assets owned by the Conservancy that had value for purposes other than conservation, resulting on millions of dollars in revenue to the Conservancy over the past several years. The last major asset of this type, the Victorine Ranch (Big Sur) property, is scheduled for sale during the current fiscal year (04/05). With that action, the Conservancy will have sold all of the significant real property assets that had been planned for return to the private market.

Finally, the Conservancy received approximately \$600,000 in fiscal year 2003/04 from **repayments of project funds** loaned in prior years, including significant repayment amounts from the Monterey Peninsula Regional Park District and the Trust for Public Land. These repayments were deposited into the State Coastal Conservancy Fund and are available for appropriation for capital outlay or support purposes. It should be noted, however, that several reimbursement obligations were fulfilled during FY03/04 following several years of installment payments. Unless further such reimbursable grants are developed, these revenues will decline quickly.

The revenues received from asset dispositions and reimbursable grants have been crucial in providing funds for our Support costs. Without the revenues

raised from these sources pursuant to the 1995 Long-Term Financial Strategy, the Conservancy would have had to substantially reduce its staffing levels prior to FY00/01.

Support Funding from the 2000 and 2002 Park Bond Acts

In March 2000 California voters approved the first State park bond issue since 1988, and this provided a substantial new source of Support funds for the Conservancy. Another park bond act and a water resources bond act were both approved in March 2002. Taken together, Support funding available from Proposition 12 (2000), Proposition 40 (2002) and Proposition 50 (2002) should enable the Conservancy to avoid the loss of personnel that was threatening in the late 1990s. Support funding from Proposition 12 is planned to be approximately \$8 million over a six-year period (FYs 01/02 – 06/07), approximately \$10 million is planned to be available for Support from Proposition 40 over an eight-year period (FYs 02/03 – 09/10), and approximately \$6 million is planned to be available for Support from Proposition 50 over a seven-year period (FYs 03/04 – 09/10). Additional funds may be also provided through the State Budget for administration of specific bond-funded projects. By FY09/10 it is anticipated that all resources available from these bond acts for Support costs will be expended.

The projected funding gap after FY08/09 must be covered from a new park bond (in 2006 or 2008), from the General Fund, or from additional receipts into the State Coastal Conservancy Fund. Without such additional funding sources, Conservancy Support expenditures must be substantially reduced following FY08/09 (or sooner).

CONSERVANCY SUPPORT FUND CONDITION AND SUPPORT BUDGET PROJECTIONS
September 2004
(\$ in thousands)

CONSERVANCY FUND RESOURCES	FY 03/04	FY 04/05	FY 05/06	FY 06/07	FY 07/08	FY 08/09
BEGINNING BALANCE: CONSERVANCY FUND (0565)	9,401	8,544	10,440	9,702	6,894	3,941
REVENUES/ADDITIONS TO CONSERVANCY FUND (incl. reversions) b		3,000				
Transfer from C.O. to S.O. per Budget Act w/ annual DOF Approval	751	700	700	700	700	700
Land Sale Proceeds			2,000 a			
Grant Repayments and Miscellaneous Receipts	602	927	408	408	408	9
TOTAL CONSERVANCY FUND RESOURCES (0565)	10,754	13,171	13,548	10,810	8,002	4,650
FUNDS USED FOR SUPPORT BUDGET (Fund No.)						
Conservancy Fund of 1976 (0565)	2,210 d	2,736	3,846 e	3,916 e	4,061 e	4,016 e
General Fund (0001)	0	0	0	0	0	0
2000 Park Bond (Prop.12) for Support (0005)	1,346	1,370	1,370	1,300	255	0
2002 Park Bond (Prop.40) for Support (6029)	1,773 e	1,860 e	750	750	1,200	1,200
2002 Water Bond (Prop.50) for Support (6031)	573	650	650	650	1,100	1,400
Federal Funds (0890)	18	121	121	121	121	121
Reimbursements (0995)	72	117	117	117	117	117
ESTIMATED TOTAL SUPPORT BUDGET	5,992 c	6,854	6,854	6,854	6,854	6,854
YEAR-END REMAINING CONSERVANCY FUND BALANCE (0565) (Total 0565 Resources less Expenditure from 0565)	8,544	10,435	9,702	6,894	3,941	634

Notes:

- a. Victorine Ranch estimated to sell FY 04/05 for \$2.0 mill.; funds available FY 05/06
- b. Adjustments: FY 04/05 = Pt.Cabrillo reversion
- c. FY 03/04 support budget reduced by \$285,000 (Prop 12) due to expiration of Coastal Trail LT positions
- d. Includes funds transferred from capital outlay to support per Budget Act provision 2
- e. FYs 03/04 & 04/05 include \$1mill/year per Section 8 of Ch. 727 (2002, Pavley), transfer from Cap.Outlay; 05/06 begins Fd.0565 \$1 mill greater to replace Pavley \$

EXHIBIT 1